

**DEPARTMENT OF TRANSPORTATION**

DIVISION OF LOCAL ASSISTANCE – MS. 1

1120 N STREET

P. O. BOX 942873

SACRAMENTO, CA 94273-0001

PHONE (916) 653-1776

FAX (916) 654-2409

TTY (916) 653-4086

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September 19, 2005

To: Metropolitan Planning Organizations  
Regional Transportation Planning Agencies

Dear Executive Directors:

Re: Procedural Changes in Managing Obligations

By the end of each federal fiscal year (September 30), the Federal Highway Administration (FHWA) is required to certify that all unexpended project obligations are still needed for projects in order for the state to continue receiving federal funds.

In 2004, the U.S. Department of Transportation's Office of Inspector General (OIG) issued a "Report on Inactive Obligations, FHWA FI-2004-039". The report's primary focus was on projects with funds obligated and no expenditure activities for twelve months or longer. This report also indicated that approximately 20 percent of the inactive funding was no longer needed and could be deobligated to fund other transportation projects. The report was critical of FHWA and the various states' Department of Transportation for not actively seeking these unneeded funds and applying them to new projects.

California Department of Transportation Director, Will Kempton, also addressed this inactive obligation issue in a letter dated August 22, 2005. Director Kempton asked for your cooperation in our efforts in reducing the level of inactive obligations.

As of August 2005, there were approximately 2300 local assistance projects with no expenditure activity for at least one year and a total unexpended obligated balance of approximately \$486 million.

In response to the OIG's report, and in an effort to assist FHWA in certifying that all obligations are needed, the California Department of Transportation (Department) will implement the following procedural changes effective October 1, 2005:

1. If a Program Supplement Agreement (PSA) is not executed and returned by an Agency within sixty (60) days of receiving the PSA from the Department, that Agency will be unable to obtain any future approvals for any projects, including obligations and invoice payments, until all PSAs for that Agency meet the 60-day PSA execution requirement.

2. Funds for projects that do not have executed PSAs within six (6) months of the actual effective obligation date will be deobligated.
3. All new PSAs will require local agencies to submit invoices for eligible expenses at least once every six months for each project phase until all funds are expended. If an Agency does not have eligible expenses, then the Agency needs to provide a written explanation for that six month period along with the target date and target amount for the next invoice submittal. This requirement will also apply to all present existing projects.
4. At project award, if the estimated construction cost is less than the amount obligated to that project for construction cost by more than \$50,000, the excess amount will be deobligated by the Department.
5. All new requests for the obligation of federal funds will require an estimated completion date for that project phase.

The Department is working closely with FHWA to reduce the number of projects on the inactive obligation report. Reports will be sent out periodically to all regions and local agencies showing projects with an inactive obligation. We are requesting that the regions work closely with their local agencies to submit invoices for eligible costs, to deobligate excess funds not needed and to submit final invoices for projects that have been completed. Deobligated funds would be available to fund other projects.

Please contact Laura Quintana at (916) 653-7200 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Terry L. Abbott", with a stylized, cursive script.

TERRY L. ABBOTT  
Chief  
Division of Local Assistance

c: Will Kempton, Director  
Deputy District Directors for Local Assistance  
District Local Assistance Engineers